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Improving the financial situation of the United Nations

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Report of the Secretary-General

Addendum

Summary

The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/58/531). It provides a review of the Organization's financial situation as at 31 December 2003 and some projections to 31 December 2004.

The report considers three financial indicators: available cash, unpaid assessed contributions and amounts owed to Member States. At the end of 2003, cash balances for the regular budget and related reserve accounts totalled $23 million, the cash balance for the capital master plan stood at $16 million, there was a serious cash deficit for the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia and, for peacekeeping accounts, there was a combined cash balance of $1,386 million. Debt to Member States for troop and equipment costs was down significantly from $703 million to $439 million.

Although there are some positive elements in the overall picture, with aggregate unpaid assessments down and no need for cross-borrowing for the regular budget in 2003, there were also some disturbing elements, including an increase in unpaid assessments for the regular budget and the Tribunals and the alarming financial position of the Tribunals.

Looking to 2004, forecasts indicate a resumption of cross-borrowing for the regular budget later in the year, a return to cross-borrowing for the Tribunals by July 2004 and an increase in debt to Member States for peacekeeping despite a reduction in the combined cash balances of peacekeeping accounts. Given the likely increase in peacekeeping activity, the Peacekeeping Reserve Fund is likely to be fully used and, given the return to Member States of cash balances of closed missions, there will be very little scope for cross-borrowing from the related accounts. As always, the financial health of the United Nations depends on its Member States meeting their financial obligations to the Organization in a full and timely manner.

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I. Introduction

1. The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/58/531). It also provides information on the financial situation of the Organization as at 31 December 2003 and projections to 31 December 2004.

2. Historically, the financial health of the United Nations has been measured by three indicators: cash on hand, the level of assessments and the amounts paid, and debt to Member States for troop and equipment costs.

II. Review of the financial situation as at 31 December 2003

A. Cash position at 31 December 2003

3. Cash balances fell from $1,397 million at the end of 2002 to $1,352 million at 31 December 2003, but the outcome for some accounts differed sharply from this still relatively healthy overall result. Since 1996 payments received and credits applied have exceeded assessments issued, except in 2000. In 2003 payments and credits exceeded assessments issued by $81 million, or by approximately 2 per cent. This partially offset higher disbursements, leading to a reduction of $45 million in total cash.

4. Within the overall cash balance, the regular budget and related reserves had $23 million of net cash, the capital master plan had $16 million and the net balances of peacekeeping accounts totalled $1,386 million. The International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia had a cash deficit of $73 million.

5. At 31 December 2003, 27 Member States had paid all their assessed contributions for all accounts in full or owed less than $100. The Secretary-General would like to record his appreciation to Australia, Azerbaijan, Canada, Denmark, Fiji, Finland, Germany, Ghana, Honduras, Jordan, Kuwait, Latvia, the Libyan Arab Jamahiriya, Monaco, Mongolia, New Zealand, Norway, Portugal, Romania, Sierra Leone, Singapore, Slovakia, South Africa, Sweden, Switzerland, Trinidad and Tobago and the United Kingdom of Great Britain and Northern Ireland.

Regular budget and the capital master plan

6. In his last report, the Secretary-General indicated that there was some uncertainty about the final cash position of the regular budget in 2003, owing to incomplete information about some major payments that were expected by the end of the year. In the event, net cash available for the regular budget at the end of 2003 was $23 million. This was the net result of lower than anticipated receipts and disbursements. The account for the capital master plan ended the year with a cash balance of $16 million.

Peacekeeping

7. The total net cash balances for peacekeeping at the end of 2003 totalled $1,386 million, an increase of $23 million compared with 31 December 2002 and $188 million higher than was forecast in the last report. This reflected higher than

anticipated receipts in the final quarter of 2003 and final disbursements that were 5 per cent below the level anticipated. Of the total cash balance of $1,386 million, $943 million related to active missions, $258 million related to closed missions and $102 million related to the Peacekeeping Reserve Fund; in addition, there were loans of $83 million, mainly to the Tribunals.

Tribunals

8. The cash position of the Tribunals has continued to deteriorate, as contributions continue to fall short of assessments. The Tribunals had a small cash deficit at the end of 2002. By the end of 2003, that had grown to $73 million. A continuation of this alarming trend would clearly threaten the future work of the Tribunals.

B. Unpaid assessments

9. Total assessments in 2003 increased to $3.9 billion from $3.6 billion in 2002. A small decrease of $24 million for peacekeeping was more than offset by increases of $260 million for the regular budget, $18 million for the Tribunals and $26 million for the capital master plan. Total payments received and credits applied in 2003 amounted to $4 billion, of which $1.3 billion was for the regular budget, $2.5 billion for peacekeeping, $173 million for the Tribunals and $18 million for the capital master plan. The net result of the changes was a reduction of $81 million in total unpaid assessments, to $1,603 million.

Regular budget

10. By 31 December 2003, 131 Member States had paid their regular budget assessments in full or owed less than $100. That number breaks the negative trend evident since the number peaked at 141 in 2000. Payments for the regular budget increased by $188 million to $1,272 million in 2003, while assessments increased by $260 million to $1,409 million. As a result, unpaid assessed contributions for the regular budget increased to $442 million at the end of 2003. Of the total amount outstanding, the United States of America owed 61 per cent, Brazil 12 per cent, Argentina 9 per cent and Japan 4 per cent. A total of 56 other Member States together owed 14 per cent of the total.

Peacekeeping

11. Peacekeeping assessments issued in 2003, at $2,260 million, were slightly lower than the $2,284 million issued in 2002. In part this reflected the fact that the General Assembly did not establish assessment rates for 2004 until December 2003. As a result, assessments covering the period to 30 June 2004 that might otherwise have been issued in 2003 could only be issued in January 2004. Although lower than receipts in 2002, the amount of $2,529 million received in 2003 exceeded new assessments issued by over 11 per cent. Consequently, peacekeeping assessments outstanding at the end of 2003, at $1,066 million, were $269 million lower than at the end of 2002. Of the reduced total, the United States owed 45 per cent and 8 of the other 15 major contributors (Brazil, China, France, Italy, Japan, the Netherlands, the Republic of Korea and Spain) together owed 25 per cent, with other Member States owing 30 per cent.

Tribunals

12. For the Tribunals, assessments grew from $199 million in 2002 to $217 million in 2003. During the same period, however, payments fell from $199 million to $173 million, despite a personal appeal from the Secretary-General. As a result, unpaid assessed contributions for the Tribunals more than doubled to $88 million, and the cash deficit at the end of 2003 was much higher. Of the total, Japan owed 46 per cent, the United States 14 per cent, the Russian Federation 12 per cent, Brazil 11 per cent and Argentina 5 per cent. Together, 106 other Member States owed the remaining 12 per cent.

C. Debt to Member States

13. At the beginning of 2003, the Organization owed Member States a total of $703 million for troop and equipment costs. In the last report, it was indicated that this amount was expected to fall to $565 million by the end of the year. In the event, it actually fell further, to $439 million. Actual new obligations for contingent-owned equipment were significantly lower than was projected earlier owing to the delayed deployment of the task force and troops in the United Nations Organization Mission in the Democratic Republic of the Congo and the faster than originally planned draw down of the United Nations Mission in Sierra Leone. In addition, payments for troop costs were higher than expected. In the event, the Organization was able to pay for troop costs through October 2003 for most missions, rather than September as had been projected.

III. Prospects for 2004

A. Assessments, payments and cash flow in 2004

14. At 30 April 2004, 18 Member States had paid in full all contributions then assessed due and payable, or owed less than $100. The Secretary-General would like to record his appreciation to Australia, Austria, Azerbaijan, Canada, Croatia, Denmark, Finland, France, Ireland, Kazakhstan, Latvia, Monaco, New Zealand, Singapore, Slovakia, South Africa, Sweden and Switzerland.

Regular budget

15. The assessment for the regular budget in 2004 was $1,483 million, over $73 million higher than the assessment for 2003. By 30 April 2004, contributions of over $661 million had been received, an increase of $26 million compared with the same period in 2003. By the same date, 77 Member States had paid their regular budget assessments in full. Although the number is lower than the 81 Member States paying in full by 30 April 2003, it is still possible that the improvement in this regard seen in 2003 will continue in 2004, and the Secretary-General would like to encourage all Member States that have not already done so to make full payment as soon as possible.

16. Regrettably, current projections indicate that there will be a need for some cross-borrowing later in 2004 and that at the end of the year there will be a cash

deficit for the regular budget and related reserve accounts of $7 million. The situation will be monitored closely.

Peacekeeping

17. By 30 April 2004, peacekeeping assessments issued during 2004 totalled $1.4 billion, and payments of over $1.1 billion had been received. Current projections are that peacekeeping assessments will total $2.9 billion in 2004, although this will obviously depend on action to be taken by the General Assembly in the coming weeks. The estimate includes requirements for the United Nations Operation in Côte d'Ivoire, which will be reviewed during the current second resumed session. It does not, however, include any provision for prospective operations in Haiti, Burundi or the Sudan or for an extension of the United Nations Mission in Sierra Leone beyond December 2004.

18. It is currently estimated that peacekeeping cash will end the year at around $931 million. That reflects the return to Member States by June 2004 of $84 million from cash balances in closed accounts. In addition, the General Assembly will be requested to take action on an amount of $94 million in closed missions during the current second resumed session.

19. It should be recalled, however, that the composition of the total peacekeeping cash balance is of critical importance, since the Organization is not permitted to borrow from active peacekeeping missions, and the Peacekeeping Reserve Fund may only be used for new and expanded missions. In this context, if the cash balances of $84 million and $94 million from closed missions are returned to Member States, then total liabilities for closed missions will exceed total cash in those missions. That will create serious problems if, as in the past, borrowing is needed to tide over other activities, including such active missions as the United Nations Interim Administration Mission in Kosovo and the United Nations Mission for the Referendum in Western Sahara, the Tribunals and the regular budget.

Tribunals

20. As matters now stand, the financial prospects for the two Tribunals remain very bleak. Assessments in 2004 totalled $273 million, and payments received to date amount to $180 million. Current projections show the Tribunal accounts going into a cash deficit position from July 2004 and ending 2004 with a cash deficit of $100 million. The prospect is frankly unacceptable and steps have been taken to freeze recruitment and scale down operations. Unless Member States make significant new payments for the Tribunals in the very near future, however, further steps will be required.

21. The financial crisis facing the Tribunals is extremely grave and it is of the greatest importance that Member States meet their financial obligations for that ground-breaking effort in full and on time. It is particularly true since the return to Member States of cash from the closed peacekeeping missions will eliminate the main alternative source of financing to maintain the operations of the Tribunals.

B. Debt to Member States

22. A significant increase in new obligations for troop and equipment costs is expected, from $607 million in 2003 to $949 million in 2004. This is due to phasing in of the United Nations Mission in Liberia and the United Nations Operation in Côte d'Ivoire and full deployment of the United Nations Organization Mission in the Democratic Republic of the Congo, which more than offset the down-sizing of the United Nations Mission of Support in East Timor and the United Nations Mission in Sierra Leone.

23. At the same time, payments to Member States for troop costs are expected to increase from $454 million in 2003 to $567 million in 2004. The increase is more than offset by a reduction in payments for contingent-owned equipment from $417 million in 2003 to $247 million in 2004. This projection reflects the time lag between deployment of troops and equipment, the signature of the memoranda of understanding and the certification of claims for the new missions.

24. The projected increase in debt to Member States providing troops and equipment should be seen in the context of an expected increase in the volume of peacekeeping activities. At the same time, it is essential that all Member States pay their assessed contributions for peacekeeping in a full and timely manner if the corresponding increase in obligations to troop-contributing countries is to be accommodated without a significant increase in the level of debt to those Member States providing troops and equipment.

25. While the Secretary-General is committed to doing everything possible to meet the Organization's obligations to troop and equipment providers, his ability to do so necessarily depends on all Member States meeting their obligations to the United Nations in a full and timely fashion.

IV. Conclusion

26. The financial picture facing the United Nations is mixed. While the overall situation has not changed dramatically and 2003 saw some positive developments, aspects of the current situation are a cause for concern. While 2003 ended with a positive cash balance for the regular budget, its situation remains precarious, and there is a real prospect that cross-borrowing will be required.

27. Cash balances for peacekeeping are expected to remain at a comfortable level overall but cash shortages persist in the United Nations Interim Administration Mission in Kosovo and the United Nations Mission for the Referendum in Western Sahara and debt to Member States is expected to increase. With regard to new missions, experience suggests that payments against assessments are usually not forthcoming for up to 120 days. Consequently, if new missions are approved as expected, the $155 million available from the Peacekeeping Reserve Fund is likely to be very fully used. With repayment to Member States of cash balances of closed peacekeeping missions, the other main source of liquidity will largely disappear and the situation is therefore very fragile.

28. It is expected that the Tribunals will run out of cash by July and end the year with a record cash deficit. The continuing level of non-payment by Member States for the Tribunals is putting their future in serious doubt.

29. The only solution to the current and prospective problems is for Member States to meet their financial obligations to the United Nations in a full and timely fashion. The Secretary-General would like to extend his sincere thanks to those Member States that have done so and appeal to all other Member States to do likewise.